



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**12 VAC 30-50; 60; 130 – Amount, Duration and Scope of Medical and Remedial Care Services; Standards Established and Methods Used to Assure High Quality Care; Amount, Duration and Scope of Selected Services**  
**Department of Medical Assistance Services**  
September 6, 2012

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### **Summary of the Proposed Amendments to Regulation**

The proposed regulations implement programmatic changes in the provision of various community mental health services, such as intensive in-home services, therapeutic day treatment services, psychosocial rehabilitation services, crisis intervention services, mental health support services, crisis stabilization services, intensive community treatment services, and early and periodic screening, diagnosis, and treatment services to ensure appropriate utilization and cost efficiency.

### **Result of Analysis**

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section.

### **Estimated Economic Impact**

Chapter 890, Item 297 YY, of the 2011 Acts of Assembly directed the Department of Medical Assistance Services to implement programmatic changes in the provision of certain community mental health services to ensure appropriate utilization and cost efficiency. These services include intensive in-home services, therapeutic day treatment services, psychosocial rehabilitation services, crisis intervention services, mental health support services, crisis stabilization services, intensive community treatment services, and early and periodic screening, diagnosis, and treatment services.

According to data provided by DMAS, since fiscal year (FY) 2007, the use of some of these services has grown dramatically with their related expenditures. For example,

reimbursements for intensive in-home services grew over two times to \$177 million in FY 2010. Therapeutic day treatment reimbursements increased more than three times to \$145 million over the same time. Reimbursement for mental health support services grew two and one half times to \$79 million over the same time period.

Pursuant to the statutory mandate, DMAS implemented emergency regulations in July 2011. The proposed changes will make the emergency regulations permanent.

One of the proposed utilization and cost efficiency measures is the requirement for an Independent Clinical Assessment (ICA) to authorize the use of intensive in-home, therapeutic day treatment, and mental health support services for children and adolescents. ICAs are currently performed by the Community Services Boards (CSBs) for \$250 per assessment. In 2011, before the implementation of the ICA program, DMAS estimated the total cost of assessments to be about \$8 million per year and total savings of averted services to be about \$13.7 million per year, producing an estimated net savings of about \$5.7 million annually. However, actual net savings appear to be much higher. Recent data suggest that the total assessment fee paid to CSBs was approximately \$5.6 million and a preliminary estimate of the actual savings from averted services in FY 2012 is in the range of \$50 million.

The main economic effect of the ICA is reducing expenditures for intensive in-home, therapeutic day treatment, and mental health support services by curbing demand for such services. Thus, providers of these services are expected to experience some revenue losses while the Virginia Medicaid program realizes savings. Also, the CSBs are likely to see an increase in their revenues for conducting ICAs and the Medicaid program will see a corresponding increase in expenditures for such assessments. Since the Virginia Medicaid program is financed 50% by the state and 50% by the federal government, one half of any savings and new costs will accrue to or be borne by the Commonwealth.

Another significant economic effect of ICA has to do with improving allocative efficiency of limited Medicaid funds. ICA is expected to ensure that utilization of services is clinically justified. By reducing the consumption of services that cannot be supported by the clinical assessment, these proposed changes help reallocate the limited state and federal funds to uses with greater need.

While separate fiscal estimates are not available for each of the remaining proposed changes, two of them aim to limit utilization by reducing demand. One of these changes is removing the coverage of a week of intensive in-home services without prior authorization and instead requiring service authorization at the onset of this service. The second change is establishing various marketing limitations to prevent inappropriate advertising practices. The likely economic impact of these two changes is a reduction in the demand for related services. In addition, these measures are expected to help achieve more appropriate utilization of these services. Thus, the providers of these services are likely to experience some revenue losses while the Virginia Medicaid program is likely to realize savings.

Two other proposed changes seem to target reduction in utilization through supply side restrictions. One change establishes more stringent staff qualifications and another improves the clarity of regulations to help enforce utilization reviews and licensing standards. The likely impact of these two changes is a reduction in the supply of related services. Some providers may incur additional compliance costs to meet new staff qualifications and enforcement of clearer standards and/or be subject to payment retractions. These changes are also expected to improve the quality of services offered.

Finally, the proposed changes also update the regulatory language to be compatible with the functions of the Behavioral Health Services Administrator if and when this position is filled or contracted out by DMAS. This position is authorized by Chapter 890, Item 297 MMMM, of the 2011 Acts of Assembly.

### **Businesses and Entities Affected**

In FY 2012, approximately 772 providers of community mental health rehabilitative services provided services to approximately 28,000 recipients. Also, there are 40 CSBs currently performing ICAs.

### **Localities Particularly Affected**

The proposed regulations are not expected to affect any particular locality more than others.

## **Projected Impact on Employment**

The proposed demand and supply side restrictions are expected to reduce the consumption of behavioral health services provided; consequently, reducing the demand for labor. However, savings are anticipated to stem from the more appropriate use of services and improved allocation of economic resources among alternative uses. One exception is the proposed ICA requirement which is expected to increase the labor demand by CSBs.

## **Effects on the Use and Value of Private Property**

The proposed regulations do not have direct effects on the use and value of private property. However, proposed changes may reduce provider revenues or add to their compliance costs both of which would have a negative impact on their asset values.

## **Small Businesses: Costs and Other Effects**

Most of the providers are expected to be small businesses. Thus, the costs and other effects to them are the same as discussed above.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

There is no known alternative that minimizes the adverse impact while achieving the same results.

## **Real Estate Development Costs**

No effects on real estate development costs are expected.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 14 (10). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such

economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.